THE FEDERAL BUILDINGS PROGRAM: AUTHORIZATION AND BUDGETARY ALTERNATIVES

June 1983

Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise noted, all years referred to in this paper are fiscal years.

Estimates in the text and tables could be made obsolete by the forthcoming release of the General Services Administration's new five-year plan.

PREFACE

Current interest in reducing long-term federal costs has given rise to several recent legislative proposals designed to improve program accountability and cost disclosure for the General Services Administration's federal buildings program. Concern for strengthening program review, reducing future requirements, and assuring an appropriate level of federal construction and ownership of work space have been the focus of these proposals. This paper, undertaken at the request of the chairmen and ranking minority members of the Senate Committee on the Budget and the Senate Committee on Environment and Public Works, provides an analytical basis for the Congress' consideration of changes in the buildings program. The paper addresses various specific questions raised by the committees and presents additional background information.

Earl A. Armbrust, William A. Isaacson, and R. Mark Musell of the General Government staff of CBO's Office of Intergovernmental Relations prepared the paper under the general supervision of Stanley L. Greigg. Numerous staff members of the General Services Administration also provided essential information. Special thanks go to Johanna Zacharias, who edited the study with the assistance of Nancy H. Brooks, and to Mary Pat Gaffney, who typed the various drafts and prepared the paper for publication. In keeping with CBO's mandate to provide objective analysis, the study offers no recommendations.

Alice M. Rivlin
Director

June 1983

CONTENTS

TABLES AND FIGURE

TABLES AND FIGURE

21-483 O - 83 - 2

SUMMARY

Under the federal buildings program, the General Services Administration (GSA) acts as the federal government's builder and property manager, overseeing an inventory of office, warehouse, and other space totaling some 230 million square feet. An estimated 880,000 civilian employees work in GSA-managed facilities, about half in government-owned space and half in space leased from the private sector. (The remaining 1.2 million federal civilian personnel work in special facilities, such as military installations, that lie outside GSA's property jurisdiction.)

Since the building program began in 1975, its annual costs have risen by more than two-thirds, from $1 billion to $1.7 billion today. Three activities account for 60 percent of program costs: **capital investment** in construction, repair, and alteration of facilities; **leasing** of space from the private sector; and **purchase contracting** for construction of space financed by agency borrowing from the private sector. Cost growth, along with concern for cost disclosure and program accountability, have drawn Congressional attention to three questions:

- **How could Congressional review of program costs and activities be strengthened?**
- **How could future leasing costs be reduced?** and
- **Should the government construct or lease the space it needs?**

CONGRESSIONAL DECISIONMAKING

As in many other federal programs, funding for space needs undergoes a two-part Congressional approval process--authorization and appropriation. Authorization for major projects under the aegis of the Senate and House committees on public works may be granted after review of prospectuses detailing project plans. Appropriation acts set limits on the level of commitments for the full program and for each of its major components, including new construction projects. Critics have cited deficiencies in both stages of the process.

Authorization Concerns

Authorizing committees review some 100 project prospectuses each year. Because prospectuses do not all come in at one time, they are difficult to rank in order of priority. This also makes the authorization process difficult to coordinate with the appropriations process, which is geared to preparation of annual appropriation bills. Deficiencies also appear in GSA's plans, which give no information on criteria for project priorities, on programmatic alternatives under different assumptions, or on the outlay effects of particular proposals.

Appropriations Concerns

Unlike other programs financed through direct appropriations recorded as budget authority, federal buildings program activities are financed by standard level user charges (SLUCs), rent-like fees collected from tenant agencies. These collections are deposited into the Federal Buildings Fund (FBF), an intragovernmental account from which funds are committed to program activities through the appropriations process. Program outlays are calculated as the difference between payments to and from the fund. In the absence of budget authority, the cost of the federal buildings program is difficult to compare with other programs and to track within the budget process. Moreover, the netting of outlays results in amounts small enough to escape the Congressional scrutiny that full program spending levels would warrant.

Without budget authority, the FBF uses three cost measures to record SLUC income committed to various activities. **Budgetary obligations** record commitments entered into under each program activity; **new obligational authority**, which appears as limiting language in appropriation acts, sets an upper bound on new commitments under the program; and **total obligational authority** represents the upper bound on total program commitments--those under new authority and those carried over from past years. Because obligations and obligational authority recorded for leasing and purchase contracts in any given year cover only that year's required payments, full program requirements--including payments required in future years--are difficult to assess. Obligations for construction, on the other hand, record total commitments for a project in the year the contract is awarded. This impedes comparing one activity against others in setting program priorities.

Policy Choices

The Congress is considering several modifications to the current system to strengthen its control over the federal buildings program and to

improve decisionmaking. As always, the Congress could continue the current system, which, by netting outlays, tends to insulate acquisition decisions from short-run budgetary consideration.

Option 1—Establish Annual Authorization and Planning. Public works committees could report annual authorization bills for consideration by the entire Congress. Such a process would encourage assigning priorities to projects, improve long-term planning, and assist in coordinating with the work of the appropriations committees. Critics would oppose including the entire Congress in the authorization process, fearing both the complications associated with another layer of decisionmaking and also possible project trading. Such critics would also contend that the setting of annual limits in appropriations acts offers ample opportunity for controlling the FBF.

Option 2—Require Full Funding of Multi-Year Leases. The budget could account for the full costs of multi-year leases in the year of contract award. If implemented in 1985, this accounting change would result in a one-time increase in obligations of some $3.4 billion, reflecting distant out-year commitments under existing leases. If limited to new leases only, the first-year increase would fall to $0.7 billion. This option would allow better recognition of the program's full demands on federal resources, but it would require additional funding. Critics would note that the current system has the advantage of allowing for the association of costs concurrently with the use of the resources, and that, under full funding, strong disincentives to multi-year leasing could arise.

Option 3—Establish Budget Authority. The FBF could be restructured to show budget authority either by recording the use of SLUC income as budget authority in the FBF account, or by eliminating this financing system altogether in favor of direct appropriations. Either approach would facilitate both the weighing of FBF program costs against other demands on the budget and the tracking of the program within the budget process. Critics would contend that the current system provides sufficient program control. With regard to abolishing the SLUC system in favor of direct budget authority, they could claim that, in light of current budgetary contraints, the present system encourages agencies to economize on space.

Option 4—Show Gross Outlays. Restructuring the FBF account to show gross outlays rather than budget authority, would facilitate strengthening Congressional control over the account without making changes in SLUC financing or the appropriations process necessary. The accounting changes, requiring a shift of building outlays from operating agencies to the FBF account, would result in a one-time increase in FBF outlays, offset by corresponding reductions in the outlays of tenant agencies. Critics would charge that the accounting changes required by the option are too unconven-

tional, and that creating budget authority is a more straightforward approach to strengthening Congressional control of the FBF.

BUDGET HISTORY AND FUTURE REQUIREMENTS

Annual federal buildings fund requirements--having risen by $0.7 billion since 1976--are driven primarily by factors largely beyond the control of GSA. For leasing--the program's largest activity--growth totaled about 65 percent over the period, 1976-1982. Growth for all program components primarily reflects rising costs of the goods and services that GSA purchases. Overall, the program shows little real growth. Nonetheless, program costs for leasing and other activities and planning strategies to determine future requirements are still of concern to the Congress.

Future Requirements

Assuming no appreciable change in the number of personnel requiring office space or in the amount of space assigned to each worker, the inventory of all types of space would decline slightly over the coming five years, from the present 230 million square feet to 223 million. The decline would result from disposal (that is, sale as surplus) of obsolete storage and other facilities. New obligational authority would rise by about 60 percent, from $1.9 billion to more than $3 billion, primarily reflecting increased unit prices. Within these totals, each major component of the program would show growth, as would SLUC income.

Among the major program activities, annual capital investments are projected to show the largest growth--more than 200 percent, or $0.5 billion, because of expected increases in SLUC collections. Lease costs will rise some $0.4 billion, or about 50 percent, reflecting inflation, changes in the composition of the inventory, and renegotiated leases. As projects now under construction are completed, the portion of the federal inventory consisting of owned office space will increase slightly to just above 56 percent over a ten-year period.

Alternative Planning Assumptions

According to recent GSA plans, future FBF requirements will accommodate significant reductions in the size of the federal civilian work force and in the amount of space assigned to each worker. Despite the attraction of potential savings, the adoption of the planning assumptions is precarious, because the Administration forecasts a relatively stable personnel level in

the next three years, and because, in the past, improvements in the efficient use of space have been difficult to achieve. The potential effects of the GSA planning assumptions--relative to a Congressional Budget Office baseline assuming constant work force and space use--are described below.

Assumption 1--Reduction in Workforce Size. The GSA's space acquisition plans assume a 12 percent reduction in the work force housed in GSA-managed buildings. Despite the potential savings in the federal buildings program, the Administration projects a stable personnel level for the near term, reflecting such considerations as program maintenance. If employment reductions of the magnitude projected by GSA should materialize, office space requirements would decline by 16 million square feet, resulting in cumulative five-year savings of $0.7 billion.

Assumption 2--Reduction in Space per Worker. Consistent with recently issued regulations, this plan assumes the gradual implementation of a 19 percent, or 32-square-foot, reduction in space assigned to each worker. Application of the new 135-square-feet-per-person standard would mean that requirements for office space would decline by some 26.4 million square feet, generating cumulative savings of $1.2 billion through 1988. This option could disrupt agency operations and adversely affect worker morale, however, and experience indicates strong central direction would be required to achieve such efficiencies. Recent GSA efforts, and budgetary pressures, have already led to some reduction in space.

Assumption 3--Reduction in Work Force and Space per Worker. If the Congress or the Administration should adopt both the work force and space use reductions described above, estimated requirements for office quarters would drop by 39 million square feet, representing a 28 percent reduction. Savings over five years would accumulate to $1.8 billion. Serious operating problems might result, however, if FBF budgetary planning assumed work force and space efficiency targets that were not achieved.

LEASING VERSUS CONSTRUCTION

Critics have charged that GSA's current system for office space acquisition biases decisions in favor of leasing. In the short term, construction is obviously a costly way to acquire space, and indeed, construction costs are higher to the federal government than to private-sector developers because of regulations and mandates that attend the expenditure of federal monies. In the longer term, however, for the government to build and own its facilities often offers opportunities for significant economies. The CBO analysis confirms that the decisionmaking procedures do indeed favor leasing, however, and that some long-term

economies of construction and ownership are not being realized. Of course, other factors--such as the space management flexibility afforded by leasing or the opportunity to control building design through federal construction--may play as important a role in space acquisition decisions as economic factors do.

Structural and Fiscal Constraints that Bias Decisions Toward Leasing

Budgetary biases under current practice result from two sources: the structure of the FBF account, and the pressures of fiscal considerations. The structure of the FBF account has been cited as biasing decisions toward leasing primarily for two reasons. First, unlike budgetary accounting practices for construction, total long-term costs under lease contracts are not recorded in the year such contracts are awarded. In the short run, therefore, leasing presents the more attractive alternative; costs (obligations) are spread out, imposing smaller immediate demands on fund resources. Second, because program levels are limited by SLUC collections, changing the mix of owned and leased space becomes difficult. In fact, the resources available since the creation of the FBF could not have covered the higher level of commitments that would have been required to accommodate less leasing.

Regardless of how obligations are recorded, decisions in favor of leasing may result from a desire to minimize short-run government spending. Leasing always results in substantially lower near-term outlays than construction. Further, for lack of well-established long-range planning, unanticipated space needs have often been met through leasing rather than construction, because rented space is usually available on short notice.

Cost Comparison Biases

Before space acquisition requests are submitted to the Congress, the Office of Management and Budget (OMB) requires GSA to prepare a present-value comparison of alternative methods for obtaining space. Present-value analysis permits comparison of the cost advantages and disadvantages associated with different methods of acquisition, adjusting fully for the different timing of expenditures. (Construction, for example, requires greater near-term commitments than leasing.) To make a fair comparison, costs should be reduced to a common basis. This is important because the earning power of money changes over time: a dollar available today is worth more than one available tomorrow; and conversely, waiting to spend a dollar later provides an opportunity to put it to other uses.

Choosing a Discount Rate--Various Approachs. The discount rate, a key factor used to compare outlays incurred in different years in the present-value comparisons, represents a real interest rate, or rate of return, used to value the resources available or forgone under different methods of obtaining space. Issued in 1972, OMB guidelines, prescribe a rate of 7 percent, based on an estimated rate of return on general purpose real property leased from the private sector. The General Accounting Office (GAO) has claimed that the rate is too high, biasing comparisons in favor of leasing. (High discount rates disproportionately reduce dollars spent in the future, thus lowering the cost of leasing compared to construction, with its higher near-term costs.) According to GAO, a lower rate based on long-term Treasury borrowing costs represents a more appropriate measure, because a discount rate should reflect the value of federal, not private-sector, resources. This approach is appropriate if the government acts like a private investor to maximize its internal financial position rather than the efficient allocation of resources in the economy as a whole.

Under the GAO approach, however, an incongruity emerges. Rental rates on a lease include investor's borrowing costs; if discounted using generally lower federal borrowing rates, the result is an overstatement of leasing costs. An appropriate rate must discount the real cost of capital actually experienced in the private sector, since that is the alternative use of resources regardless of how space is acquired.

An Alternative Approach. Treasury borrowing rates are lower than private rates of equal maturities, because private enterprises are subject to a greater risk of failure. Adding a risk charge to federal borrowing rates would help correct the incongruity noted in the GAO approach. The CBO analysis of historical data (1963-1982) shows that, when real federal borrowing rates incorporate an average risk factor, a discount rate of 3 percent seems appropriate. The alternative CBO rate, which reflects borrowing costs rather than rates of return, is considerably lower than the present OMB rate. The OMB rate creates incongruities of its own, however, because it overstates the costs of borrowing that are implicit in leases. A correct rate should approximate real borrowing costs actually experienced in the private sector.

The Economies of Construction

Despite the short-term outlay advantages of leasing, construction generally requires smaller long-term budgetary expenditures from the FBF account. Measured over a building's useful life, construction of a typical large project requires 40 percent less in FBF outlays than leasing a facility of comparable size and location. Such comparisons, however, disregard both

21-483 O - 83 - 3

the fact that expenditures occur over different time periods and that federal buildings have a residual value to the government. When comparing present values, construction still appears more economical in many cases. The CBO analysis indicates that over the last 20 years, real Treasury borrowing rates, adjusted for risk, almost always remained well below 5 percent. According to CBO and GSA, present-value analysis incorporating discount rates at such levels will reveal construction to be the more economical alternative most of the time, although a mix of leasing and construction would still be the optimal investment strategy.

Policy Choices

In view of its concern regarding biases toward leasing, the Congress might take several actions, some modeled after past legislative proposals, that would modify the current system.

Option 1--Adopt a Lower Discount Rate. Little consensus exists concerning an appropriate discount factor for FBF cost comparisons. This option would mandate a 3 percent discount rate as a substitute for the 7 percent rate used according to OMB stipulations. (As borrowing experience changes over time, a different rate might appear more appropriate.) The 3 percent rate would reflect average real Treasury borrowing costs and a factor for risk. Consequently, the portion of cost comparisons favoring construction would rise from 34 percent of all comparisons to 64 percent, and average present-value savings for construction, relative to leasing, would increase from 9 percent to 30 percent.

Proponents of a 3 percent discount rate would argue that discount rates based on borrowing rates with a risk factor offer the best method of determining the most economical space acquisition choice. Some critics might favor lower rates based solely on Treasury borrowing, while others might favor higher rates based on estimated returns in the private sector. Others would point to the advantages of the reduced near-term outlays required by leasing. In their view, a more direct approach for achieving savings would be to reduce the much higher costs of federal versus private-sector construction, although this emphasis could be implemented no matter what discount rate was selected.

Option 2--Establish a Statutory Inventory Mix. This option would adopt a target requiring an increase from about 50 percent to 80 percent in the portion of employees housed in government-owned facilities. This would necessitate constructing an additional 18.6 million square feet of office space over five years. Proponents would find this approach a simple, direct way of dealing with lease bias. The widely varying results of cost compari-

sons for projects of different sizes and localities, however, underscores the danger of setting targets for space. Near-term outlays would increase by $1.3 billion; and in the long term, overall costs, measured in present-value terms, could rise by nearly one-third. These costs might decline, however, if reductions in work force size or space use were achieved, or if commercial buildings could be purchased on terms advantageous to the government.

Option 3--Authorize FBF Borrowing. This option would provide authority for the FBF to borrow additional resources from the Treasury, subject to appropriations by the Congress. Access to additional funds, would mean that the level of construction would not be restricted by SLUC income, removing that source of bias against construction. The CBO estimates that such borrowing, if provided in 1984, could average as much as $0.5 billion a year through 1988. This option would improve program accounting and facilitate review of the FBF program within the Congressional budget process, although it could at the same time increase federal spending. Critics claim that intragovernmental borrowing represents an unnecessarily complex solution, especially when budgetary restraints will likely restrict the level of construction despite a new source of funding.

CHAPTER I. INTRODUCTION

Under the federal buildings program, the General Services Administration (GSA) acquires and manages office space, warehouses, and other public buildings across the nation. In 1982, these facilities provided an inventory of some 230 million square feet of space, for use by about 880,000 federal civilian workers--or about 40 percent of the total civilian work force employed by various departments and agencies. More than one-fifth of that inventory is used to carry out programs of three agencies: the Internal Revenue Service, the Social Security Administration, and civilian functions of the Department of Defense. 1/ Approximately half of all federal personnel occupying GSA-managed facilities are situated in buildings that the government owns outright; the other half work in space leased from private-sector landlords. 2/

Costs for federal buildings, both government-owned and leased, have been rising steadily. Between 1976 and 1982, costs are reported to have risen from just over $1.0 billion to about $1.7 billion. 3/ By 1988, costs may reach $3.1 billion, according to estimates by the Congressional Budget Office. This growth, along with concerns about cost disclosure and program

---

1. Certain types of special federal facilities, such as hospitals, prisons, laboratories, and military installations, lie outside GSA's jurisdiction. Altogether, these provide space for some 1.2 million civilian workers--mainly employees of the Department of Defense, the Veterans Administration, and agencies engaged in research and development, energy production, or field operations for natural resources programs.

2. Statutory authority for leasing derives from the Federal Property and Administrative Services Act of 1949. Authority for purchasing and constructing facilities derives from the Public Buildings Act of 1959. For legislative history of the federal buildings program, see Virginia A. McMurtry, Public Buildings Policy: Alternatives for Reform, Congressional Research Service Issue Brief (May 13, 1982).

3. Derived by the Congressional Budget Office from data supplied by the General Services Administration.

accountability, has given rise in the last few years to a series of legislative proposals to change the authorization and budgeting procedures for GSA's public buildings program. Four main issues surround the various proposals: the level of capital investment for construction of government-owned facilities; the recognition of multi-year cost commitments; the mechanics for exercising Congressional control; and possibilities for reducing costs, especially in the long run.

PLAN OF THE STUDY

In response to these concerns, this paper considers the following questions:

- How could Congressional review of program costs and activities be strengthened?
- What strategies could reduce the future requirements of the federal buildings program for leasing and other activities?
- Is the present system biased toward satisfying federal space requirements through leased rather than owned facilities, and if so, is the government failing to capture long-term economies realizable from ownership? And, should more emphasis be given to federal capital investment for construction?

The remainder of this chapter gives an overview of the federal buildings program, covering space acquired and managed by GSA, methods of financing, cost measures, and major program components. Chapter II describes the current authorization and appropriations processes by which the Congress exercises control over the buildings program. Chapter III reviews budgetary history and sets out projected requirements. Chapter IV examines factors influencing GSA decisions to lease or build required space. Chapters II, III, and IV each analyze alternative choices for dealing with the concerns they describe.

OVERVIEW OF THE FEDERAL BUILDINGS PROGRAM

About three-fifths of the inventory of space made available by GSA to various federal departments consists of office space (see Table 1). The remaining space includes warehouse and storage areas, as well as such specially designed facilities as federal courthouses, regional data processing cen-

TABLE 1. DISTRIBUTION OF FEDERAL BUILDINGS AND EMPLOYEES HOUSED, BY TYPE OF SPACE AND OWNERSHIP, 1982

Type of Ownership	Total	Office	Storage and Warehouses	Special Facilities	Office as Percent of Total
	Millions of Occupiable Square Feet				
Leased a/	91.2	68.9	14.2	8.1	(76)
Government-owned	138.7	74.0	44.3	20.4	(53)
(As a percent of total)	(60)	(52)	(76)	(72)	--
Total	230.0	142.9	58.5	28.5	(62)
	Thousands of Personnel Housed				
Leased	431.4	407.2	3.0	21.2	(94)
Government-owned	447.5	413.3	4.8	29.4	(92)
(As a percent of total)	(51)	(50)	(62)	(58)	--
Total	878.9	820.5	7.8	50.6	(93)

SOURCE: Congressional Budget Office from data supplied by General Services Administration.

NOTE: Detail may not add to totals because of rounding.

a. Includes small amounts of space leased from the U.S. Postal Service, an independent federal enterprise treated as an off-budget entity.

ters for the Internal Revenue Service, some postal facilities, and border stations for various enforcement and inspection activities.